

## Casino closure means tax-revenue drop for A.C.

Written by Administrator  
Monday, 30 December 2013 09:03 -

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**Suzette Parmley, *Inquirer Staff Writer***

Posted: Monday, December 30, 2013, 2:01 AM

The Inquirer

ATLANTIC CITY - Shock did not exactly resonate here when word got out that the Atlantic Club would shut its doors for good next month.

The city resort's struggles have been well-documented with the advent of regional gambling competition in Pennsylvania and New York since 2006.

But with the Atlantic Club's closing, the city will be left with 11 casinos and stripped of a key tax rate when it is already borrowing millions of dollars to pay refunds on casino property-tax appeals because of strained gaming revenue.

Since 2008, Atlantic City has lost a third of its tax base because of casino tax appeals, and it must make up for that lost money.

"The problem is that [casino] income declined, as well as a certain value, and it has thrown everything in a tailspin," Republican Mayor-elect Don Guardian said of the crisis that awaits his administration when he is sworn in on New Year's Day.

Guardian made comparisons to Detroit, which over the summer became the first major U.S. city to file for Chapter 9 bankruptcy protection.

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"In a few years, we will be broke under the way the city is doing business, and the [casino tax] appeals is just one part of it," he said this month in his first extensive interview on the issue. "Detroit continued to bond until [it] couldn't bond anymore. It increased taxes and lost population.

"Some of those same things are happening in Atlantic City, and we have to take steps to avert bankruptcy," he said.

Since 2007, the city has borrowed up to \$270 million to pay property-tax refunds to the casinos. Tropicana settled with the city in January. It is to receive a \$49.5 million refund in the form of credits against future real estate tax bills beginning in 2013 and ending in 2017.

Attorneys for Borgata, the city's top-grossing casino and largest taxpayer, will appear in the Appellate Division of state Superior Court in Trenton in late spring to preserve the casino's \$48.8 million refund, plus interest, that a state tax court awarded it Oct. 18. The city is appealing the ruling.

Borgata's refunds - based on a judge's ruling that the casino's value for tax purposes was \$880 million in 2009 and \$870 million in 2010, rather than \$2.3 billion - account for 20 percent of the city's annual budget.

Some say that if Borgata prevails, the city will impose higher city tax rates, which is why the case is being closely watched by Atlantic City residents, small-business owners, and other casinos.

The ripple effect of the city's spiraling debt from casino tax appeals and its shrinking tax base is expected to be felt throughout Atlantic County and South Jersey for years, said Keith Szendrey of the Atlantic County Board of Taxation.

"When Atlantic City's assessed value goes down, then every other municipality in the county is picking up a larger share of the county budget," he said, "plus bearing their share of the casinos' refunds because of Atlantic City's previous overpayment."

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### Decision to revalue

A key driver of the appeals was the city's decision to revalue the tax base in 2006-07, when real estate values and casino revenue were unsustainably high because of a robust economy.

In New Jersey, casino property valuations are based on the income they generate.

The peak time for the casinos was 2006, when they grossed \$5.2 billion in gambling revenue.

"That's no longer the case, and we think as the business goes down, so should the tax assessments," said Tom Pohlman, executive vice president and general manager of Golden Nugget Atlantic City, formerly Trump Marina, which was sold to Landry's Inc. in 2011 for \$38 million.

Despite the bargain purchase, Pohlman said the casino was paying property taxes at 2006 assessed rates, when it was valued at well over \$250 million.

"It's just like real estate. If I bought a house in booming years, and the market has declined and it's worth a lot less, my property taxes should go down," Pohlman said.

Last year, the city refunded more than \$100 million in property tax assessments to casinos, all with borrowed money, according to records at the county Board of Taxation.

The grim financial situation is on the radar of many in Trenton, including the state Department of Community Affairs, which monitors the finances of municipalities and provides support; and Gov. Christie, who established a state-run tourism district in Atlantic City in 2011 as part of a five-year plan.

Christie has vowed to keep gambling in the state exclusive to Atlantic City, despite renewed

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calls from North Jersey lawmakers to expand gaming to the Meadowlands. But he said he wanted to "see significant results" in 2014.

"It's obviously a pivotal year because we need to make continued progress in Atlantic City or we're going to need to start considering alternatives," Christie said at a Dec. 19 news conference.

The city's ratable base - like its gaming revenue - has been on a steady decline - down 30 percent from \$20.5 billion in 2008 to \$14.4 billion this year.

But total tax levy - the total amount to be collected - increased 7 percent, from \$341 million in 2008 to \$366 million in 2013.

Moody's downgraded Atlantic City's credit rating last month to Baa2, citing its significantly reduced tax base.

The tax rate is determined by dividing the total tax levy by the ratable base. The erosion in the city's ratable base caused the tax rate in Atlantic City to increase from 1.666 percent in 2008 to 2.542 percent in 2013.

Szendrey predicted home- and business owners in Atlantic City would again pay higher property taxes because of casino tax appeals.

"With the casinos going down in value, the burden shifts back to residential and small-business owners and other Boardwalk properties not getting the same size [tax] reductions, Szendrey said.

### **Atlantic could not pay**

The tiny Atlantic Club, one of the city's weakest gambling houses, could no longer pay its property taxes as revenue slowed.

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Built as the Golden Nugget by Steve Wynn in 1980, the casino filed for bankruptcy in November and went on the auction block.

Under a deal approved Monday by a judge, Tropicana Entertainment and Caesars Entertainment Inc., both of which have rival casinos here, will buy the Atlantic Club for \$23.4 million and shut it down. Tropicana will take the slot machines and table games, and Caesars gets the hotel.

Formerly the A.C. Hilton, then ACH, the Atlantic Club drew an older crowd and was marketed as a "locals' casino" with free parking.

"Their food choices, game limits, and amount of restaurants were all lowered to accommodate customers that were on smaller budgets," said Paul Westle, 75, of Elkins Park, a retiree who went there at least twice a month.

But he said that over the last year, he had received fewer comps, or freebies, from the casino.

Atlantic Club was delinquent in paying \$4.2 million in 2013 property taxes, according to the city tax collector, paying just half that amount. The final nail in the coffin may have come in the spring, when talks with the PokerStars owner to buy the casino fell through.

When the casino closes Jan. 13, about 1,600 workers will lose their jobs. But other casinos - such as Trump Plaza, which is also small and antiquated - have sought a buyer for most of the year.

Revel, open only 21 months and which emerged from bankruptcy in May, is talking to potential suitors as it struggles. The casino was built at a cost of \$2.4 billion but was reassessed at \$1.15 billion this year after appealing its property taxes.

Atlantic City's gross gaming revenue fell 41 percent from 2006 through 2012. The state Division

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of Gaming Enforcement will release the 2013 total on Jan. 10. The total is expected to be lower than last year's.

"We do not see any significant rebound in Atlantic City," said gaming analyst John Kempf of RBC Capital Markets L.L.C.

Moody's Atlantic City analyst Vito Galluccio will not predict a Detroit scenario just yet. He said Detroit's finances were more dire and its debt burden greater. It has also lost many more residents than the resort has.

"Still, Atlantic City's debt burden has been growing rapidly, and the negative outlook . . . indicates that there could be further deterioration in Atlantic City's credit standing," he said.

Guardian, 60, who lives in the city's Northeast Inlet, plans to commission a revaluation of the entire tax base in the next year or two to bring assessed values in line with reduced market values. He said he would seek state financial aid and "make some serious cuts to our budget and do it every year for the next three years."

"It's similar to a tooth that you didn't take care of the last 10 years," he said. "We need to face the fact that we need a root canal, and I'm the dentist.

"No one wants a root canal, but . . . you will be happy I saved the tooth."

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[sparmley@phillynews.com](mailto:sparmley@phillynews.com) 856-779-3928 @SuzParmley

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